

UNCLAS CARACAS 003917

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STATE FOR WHA/AND, WHA/EPSC, EB  
TREASURY FOR OASIA - GIANLUCA SIGNORELLI  
USCINCSO FOR POLAD  
BUENOS AIRES FOR TREASURY - MHAARSAGER

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TAGS: ECON EFIN PGOV VE  
SUBJECT: VENEZUELA MACROECONOMIC UPDATE

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SUMMARY  
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**11.** (U) Venezuela's economic recovery continues based on high government expenditures and strong consumption levels. Unemployment has continued its slow decline. Inflation, while slowing, remains somewhat high. The balance of payments has moved from strong surplus to a near even position. Foreign exchange controls have contributed to the accumulation of excess liquidity in the economy and low interest rates during 2004. However, controls have been administered in an increasingly more accommodative fashion as oil revenue has increased and reserves have risen. Demand for credit has begun to rise with the economic recovery. END SUMMARY.

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ECONOMIC GROWTH  
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**12.** (U) Total GDP increased by 20.4 percent in real terms during the period January-September of 2004 compared with the levels of economic activity registered during the same period of the previous year, after two consecutive years of deep economic recession. However, January-September 2004 GDP level is still below the GDP level for the same period of 2001. The 2004 economic recovery has been driven by a large increase in government expenditures, based on higher than expected oil prices, which in turn has generated higher consumption levels.

REAL GDP GROWTH RATE  
(PERCENTAGE)

	OIL	NON-OIL	TOTAL
1998	0.3	(0.1)	0.3
1999	(3.8)	(6.9)	(6.0)
2000	2.3	4.2	3.7
2001	(0.9)	4.0	3.4
2002	(14.2)	(6.0)	(8.9)
2003	(2.1)	(8.1)	(7.6)
2004 (JAN-SEP) (1)	18.6	20.0	20.4

(1) Preliminary figures

SOURCE: Central Bank of Venezuela.

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UNEMPLOYMENT  
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**13.** (U) September 2004 figures from the National Institute of Statistics (INE) indicate an average unemployment rate of 14.5 percent. This figure represents 1.77 million unemployed out of a labor force of 12.25 million, and a total population of 26.09 million. INE's figures are disputed by the private sector. (According to Datanalisis, a private pollster and consultancy which uses a different methodology, the unemployment rate is around 17 percent.) Shifts in the work force from the formal to the informal sector of the economy, which accounts for almost a half of the occupied working labor force, have mitigated unemployment to some extent.

UNEMPLOYMENT (percentage in second semester)

1998	11.0
1999	14.5
2000	13.2
2001	12.8
2002	16.2
2003	16.8
2004	
JAN	19.1
FEB	17.1

MAR	15.6
APR	16.3
MAY	15.8
JUN	15.5
JUL	15.3
AUG	14.2
SEP	14.5

SOURCE: GOV National Institute of Statistics (INE).

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OIL PRODUCTION AND EXPORTS  
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**14.** (U) The total value of oil exports reached USD 23.7 billion during the period January-September 2004 with an average export price of USD 32.4 per barrel. Venezuela's OPEC production quota has been 3.11 million barrels a day since November 1, 2004. Venezuela's oil production has been below the quota, according to OPEC figures. Oil prices (Venezuelan basket) have been increasing during 2004, reaching a record high of USD 43.09 per barrel during October 2004.

OIL PRODUCTION AND EXPORTS (THOUSAND B/D)

PRODUCTION(2)	AVERAGE EXPORT PRICE		EXPORTS (USD MILLION)
	EXPORTS	(USD/B)	
1996	2,984	2,752	18.4
1997	3,248	3,052	16.3
1998	3,279	3,116	10.6
1999	2,950	2,785	16.0
2000	3,060	2,791	25.9
2001	3,044	2,711	20.2
2002	2,567	2,432	22.0
2003 (3)	2,335	2,170	25.8
2004 (J-S)	2,540	2,375	32.4
			23,705

(2) Crude oil, including condensates.  
(3) Preliminary figures.

SOURCE: Central Bank of Venezuela, Ministry of Energy and Mines, OPEC, and private sector estimates.

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MONEY SUPPLY/M2  
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**15.** (U) Monetary liquidity increased 48.3 percent from October 2003 to October 2004, largely as a result of exchange controls and increases in government expenditure. Much of the excess liquidity accumulated in the economy during these months has been withdrawn by the BCV by issuing government bonds and certificates of deposits to domestic banks.

MONEY SUPPLY/M2 (4) MONETARY BASE

End of:	(million Bs.)	Pct.Chg.	(million Bs.)	Pct.Chg.
1996	5,493,813	55.4	1,675,799	92.1
1997	8,956,161	63.0	3,004,685	79.3
1998	10,621,645	18.6	3,717,323	23.7
1999	12,740,836	20.0	4,909,822	32.1
2000	16,284,578	27.8	5,790,841	17.9
2001	16,976,364	4.2	6,478,295	11.9
2002	19,573,369	15.3	7,701,120	18.9
2003	30,835,975	57.5	11,274,439	46.4
2004 (5)				
JAN	30,279,535	(1.8)	10,752,425	(4.6)
FEB	31,815,818	5.1	10,762,152	0.1
MAR	32,311,341	1.6	13,219,845	22.8
APR	31,934,539	(1.2)	11,049,744	(16.4)
MAY	32,962,043	3.2	11,291,538	2.2
JUN	34,237,954	3.9	11,994,271	6.2
JUL	35,941,059	5.0	12,346,773	2.9
AUG	36,500,509	1.6	12,724,344	3.1
SEP	36,676,340	0.5	12,503,001	(1.7)
OCT	37,956,264	3.5	13,217,650	5.7

(4) M2 includes currency, demand deposits, savings and certificates of deposit.

(5) Preliminary figures.

SOURCE: Central Bank of Venezuela.

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CONSUMER PRICE INDEX  
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**16.** (U) The Central Bank of Venezuela (BCV) reported that consumer prices for the Caracas metropolitan area rose 19.5 percent from November 2003 to November 2004. Consumer prices lagged producer prices, however, as wholesale prices increased by 24.2 percent during the same period. (Note: The GOV imposed price controls February 11, 2003 on some primary food items, pharmaceuticals, and personal care products as a complement to the exchange control regime.) Core inflation removes the most volatile categories from the CPI. The GOV periodically adjusts regulated basic food staples, the last time at the beginning of November 2004.

CONSUMER PRICE INDEX (1997 AVG =100) and CORE INFLATION

	END OF PERIOD	PCT CHANGE	CORE INFLATION (% change)
1996	84.6	103.2	N/A
1997	116.5	37.6	N/A
1998	151.3	29.9	N/A
1999	181.6	20.0	N/A
2000	206.0	13.4	12.8
2001	231.3	12.3	11.4
2002	303.5	31.2	31.2
2003	385.7	27.1	37.9
2004			
JAN	395.4	2.5	1.7
FEB	401.6	1.6	2.6
MAR	410.2	2.1	3.6
APR	415.6	1.3	2.0
MAY	420.5	1.2	1.5
JUN	428.3	1.9	1.5
JUL	434.2	1.4	1.2
AUG	440.0	1.3	1.1
SEP	442.3	0.5	0.2
OCT	445.0	0.6	1.0
NOV	452.5	1.7	1.5

SOURCE: Central Bank of Venezuela.

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INTEREST RATES  
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**17.** (U) Interest rates reported by the Central Bank in 2004 continue the downward trend of 2003. Excess liquidity arising from the application of exchange controls was the most important cause of this trend. However, credit card, mortgage, and auto loan rates have been kept at levels that are now than double the average loan rate for most consumers. The spread between lending and deposit rates decreased from 6.59 percent in January 2004 to 3.21 percent in November 2004.

AVERAGE INTEREST RATES OF THE SIX MOST IMPORTANT COMMERCIAL AND UNIVERSAL BANKS

	Loans	Deposits	
		Savings	90 days
1996	37.22	18.36	26.85
1997	22.16	6.84	14.62
1998	45.21	10.25	38.02
1999	31.89	7.05	18.90
2000	23.91	3.35	14.80
2001	25.64	2.40	14.13
2002	37.08	3.90	28.29
2003	24.05	6.15	17.58
2004			
JAN	18.38	5.19	11.79
FEB	18.08	4.54	10.84
MAR	17.56	4.56	12.84
APR	17.97	4.56	12.46
MAY	17.68	4.43	13.11
JUN	17.08	4.33	12.75
JUL	17.22	4.17	11.67
AUG	17.58	4.21	12.43
SEP	16.92	4.26	13.47
OCT	17.01	4.49	13.03
NOV	16.11	4.75	12.90

SOURCE: Central Bank of Venezuela.

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EXCHANGE RATES AND BCV LIQUIDATIONS  
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**18.** (U) The exchange control system pegged the bolivar at 1,600/USD on February 5, 2003. One year later, on February 7, 2004, the Ministry of Finance and the Central Bank devalued the Bolivar 20 percent, to 1,920.00. The National Exchange Control Administration (CADIVI) oversees all official foreign exchange transactions. As official foreign exchange liquidations have been

increasing during the last months, the exchange rate in the parallel market has been decreasing. The national budget for 2005 assumes that the new official average exchange rate will be 2,150/USD, representing a devaluation of 12 percent. The parallel market exchange rate closed at around 2,500/USD at the end of November 2004.

END OF PERIOD EXCHANGE RATES (BS/USD)  
AND BCV LIQUIDATIONS

OFFICIAL MARKET	PARALLEL MARKET	OFFICIAL FOREX LIQUIDATIONS (MILLIONS USD)
1996	476.50	
1997	504.25	
1998	564.50	
1999	648.25	
2000	699.75	
2001	763.00	
2002	1,401.25	
2003	1,600.00	2,875.00
		4,594.52
2004		
JAN	1,600.00	3,050.00
FEB	1,920.00	3,240.04
MAR	1,920.00	3,084.00
APR	1,920.00	2,981.00
MAY	1,920.00	2,913.59
JUN	1,920.00	2,622.83
JUL	1,920.00	2,645.78
AUG	1,920.00	2,684.16
SEP	1,920.00	2,431.20
OCT	1,920.00	2,504.78
NOV	1,920.00	2,500.00
		943.60
		934.90
		891.90
		898.90
		818.30
		1,132.00
		1,297.50
		1,404.00
		1,702.00
		1,334.00
		1,422.90

SOURCE: Central Bank of Venezuela, Metroeconomica, and Banco Provincial.

MERCHANDISE TRADE BALANCE

19. (U) Non-oil exports increased 38.4 percent during January-September 2004 compared with the same period of last year. According to INE, exports of base metals (aluminum, steel, and others) accounted for 42.2 percent of total non-oil exports for the period January-September 2004, followed by mineral products (19.7 percent), and chemicals (14.9 percent). The United States was the largest recipient of Venezuela's non-oil exports (41.8 percent), followed by Colombia (13.5 percent), and Mexico (5.8 percent). Imports increased by 62.7 percent during January-September 2004 compared with the same period of last year as approvals and liquidations of foreign exchange increased during 2004.

MERCHANDISE TRADE BALANCE (USD MILLION)

	January-September	
	2003	2004(6)
OIL EXPORTS (A)	22,052	15,678
NON-OIL EXPORTS (B)	4,809	3,480
TOTAL EXPORTS (C)	26,861	19,158
TOTAL IMPORTS (D)	(10,341)	(7,045)
MERCHANDISE TRADE BALANCE (C)-(D)	16,520	12,113
		17,057

(6) Preliminary figures.

SOURCE: Central Bank of Venezuela.

BALANCE OF PAYMENTS

10. (U) Venezuela's balance of payments registered a surplus of USD 294 million during the period January-September of 2004, compared with a surplus of USD 3.79 billion during the same period of last year. Although the current account surplus was higher than the year before because of the rise in oil prices, the capital and financial deficit was much more higher, contributing to the overall balance's lower surplus during the first nine months of 2004. PDVSA's operations, including the buyback of part of its external debt, and higher private sector repatriation of capital contributed to these results.

BALANCE OF PAYMENTS SUMMARY  
(USD MILLION)

January-September

	2003	2003	2004(7)
CURRENT ACCOUNT (A)	11,524	8,400	11,324
EXPORTS, FOB	26,861	19,158	28,522
IMPORTS, FOB	(10,341)	(7,045)	(11,465)
TRADE BALANCE	16,520	12,113	17,057
NET SERVICES AND RENT	(5,003)	(3,701)	(5,577)
NET TRANSFERS	7	(12)	(156)
CAPITAL AND FINANCIAL ACCOUNT (B)	(5,135)	(3,851)	(8,903)
DIRECT INVESTMENT	1,338	1,678	612
PORTFOLIO INVESTMENT	(1,348)	(1,551)	(3,872)
OTHER INVESTMENT	(5,125)	(3,978)	(6,643)
NET ERRORS AND OMISSIONS (C)	(946)	(758)	(2,127)
OVERALL BALANCE			
(A)+(B)+(C)	5,443	3,791	294

(7) Preliminary figures.

SOURCE: Central Bank of Venezuela.

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INTERNATIONAL RESERVES  
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¶11. (U) BCV-held international reserves increased nearly continuously after exchange controls were imposed in February 2003 until May 2004. PDVSA's sales of dollars to the Central Bank were partially suspended in order to direct oil revenues to a USD 2.0 billion Social Development Fund, the creation of which has been very controversial. Reserves dropped USD 2,509 million on August 2, after PDVSA completed the buyback of part of its external debt. During September, October, and November 2004 reserves have been increasing slightly.

INTERNATIONAL RESERVES (USD MILLIONS)

	BCV	FIEM	TOTAL
1996 DEC	15,229	-	15,229
1997 DEC	17,818	-	17,818
1998 DEC	14,849	-	14,849
1999 DEC	15,164	215	15,379
2000 DEC	15,883	4,588	20,471
2001 DEC	12,296	6,227	18,523
2002 DEC	12,003	2,857	14,860
2003 DEC	20,666	700	21,366
2004			
JAN	21,623	701	22,324
FEB	21,929	702	22,631
MAR	22,560	702	23,262
APR	23,591	703	24,294
MAY	23,453	703	24,156
JUN	22,522	704	23,226
JUL	23,306	705	24,011
AUG	20,749	706	21,455
SEP	21,135	706	21,841
OCT	21,973	707	22,680
NOV	23,226	709	23,935

SOURCE: Central Bank of Venezuela.

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CENTRAL GOVERNMENT FINANCIAL RESULTS  
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¶12. (U) Total central government expenditures are expected to increase by 46.2 percent during 2004 in comparison with last year, according to a projection made by Banco Mercantil. Increased spending during 2004 has continued the same trend of expansion initiated in mid-2003. This has been possible because of stronger oil prices, as well as higher collection of internal taxes.

CENTRAL GOVERNMENT FINANCIAL RESULTS  
(TRILLIONS OF BOLIVARS)

	2002	2003	2004 (8)
TOTAL ORDINARY REVENUES	23.9	31.4	47.4
Oil income	11.3	15.6	20.5
Non-oil income	12.6	15.8	26.9
TOTAL EXPENDITURES	28.2	37.3	53.4
FISCAL DEFICIT	(4.3)	(5.9)	(6.0)

(8) Banco Mercantil forecast.

Sources: BCV, Banco Mercantil, and post calculations.

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PUBLIC SECTOR DEBT

13. (U) The government has been actively refinancing its domestic and external debt during 2003 and 2004. Domestic bonds and treasury promissory notes dramatically increased both in the share of domestic banks' portfolio holdings and in the share of the GOV's debt. At the end of September 2004, the Ministry of Finance issued bonds for the equivalent of USD 1.5 billion to exchange old bonds for U.S. dollar-denominated global bonds due 2014.

PUBLIC SECTOR DEBT (USD BILLION)

	2003	2004(9)
FOREIGN DEBT	33.2	30.1
CENTRAL GOVERNMENT	23.0	22.8
RESTRUCTURED DEBT	5.8	5.7
NON-RESTRUCTURED DEBT	17.2	17.1
AGENCIES	1.2	1.2
PDVSA	9.0	6.1
DOMESTIC DEBT (10)	17.9	21.5
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TOTAL PUBLIC SECTOR DEBT	51.1	51.6

(9) Projection.

(10) Includes Central Bank debt.

SOURCES: Ministry of Finance, Metroeconomica, and Santander Investment.

BANKING SYSTEM

14. (U) Credit demand increased during January-September 2004 as a result of the rebound of the economy, although at a lower level than 2002. The percentage of past due loans decreased from December 2003 to September 2004. This figure has been decreasing since 2002 as banks have been cleaning up their credit portfolios, declaring more past due loans as outright losses.

BANKING SYSTEM KEY INDICATORS  
(percentages)

	DEC 02	DEC 03	SEP 04
Past due loans/ gross loans	6.76	4.47	2.49
Credit portfolio allowance/ past due loans	132.64	179.50	197.96
Equity/total assets	16.08	14.44	14.43
Net financial margin/ average asset	5.32	6.19	5.83
Net financial margin/ average equity	35.65	43.95	43.60
Net loans/ total deposits	54.46	36.33	46.51

Source: SUDEBAN.

DIRECT FOREIGN INVESTMENT

15. (U) The Superintendency of Foreign Investments (SIEX) registered new direct foreign investment in the amount of USD 324.4 million during the period January-September 2004. The highest amount of investment was registered during the month of September 2004 (USD 130.0 million), most of which came from Switzerland in the food manufacturing sector.

DIRECT FOREIGN INVESTMENT  
(MILLIONS OF USD)

1996	1,114.4
1997	690.1
1998	1,583.8 (11)
1999	985.4
2000	642.9
2001	948.1
2002	297.0
2003	1,174.2 (12)

2004	
JAN	55.2
FEB	47.0
MAR	24.4
APR	43.9
MAY	6.8
JUN	8.1
JUL	4.6
AUG	4.4
SEP	130.0
OCT	21.4
TOTAL	345.8

(11) Privatization of state steel company (SIDOR).  
 (12) This high figure consists largely of investments in former state-owned telecoms giant CANTV, made in 1996, but for technical reasons only registered by the GOV in 2003.

SOURCES: SIEX, CONAPRI, and Metroeconomica.

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 CARACAS STOCK EXCHANGE INDEX  
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¶16. (U) The Caracas Stock Exchange (CSE) index closed at 29,306.54 at the end of November 2004, decreasing 1.1 percent from the end of the previous month but up 37.0% from November 2003. A primary catalyst in this rise is the use of CSE shares to acquire American Depository Receipts on the New York Stock Exchange that are then used as foreign exchange vehicles. However, the CSE has also benefited from the lack of other investment opportunities in the broader economy and from the recovery.

CARACAS STOCK EXCHANGE CAPITALIZATION INDEX  
 (DECEMBER 1993 = 1,000)  
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	2002	2003	2004
JANUARY	6,293.89	8,286.65	27,956.14
FEBRUARY	6,958.39	8,509.56	27,484.76
MARCH	6,828.04	8,506.59	26,579.69
APRIL	6,712.57	8,631.60	25,879.34
MAY	7,422.64	12,799.62	25,405.73
JUNE	7,452.09	13,666.40	25,285.17
JULY	7,134.00	14,052.35	25,611.18
AUGUST	6,793.30	14,497.20	27,263.38
SEPTEMBER	7,447.71	16,956.29	30,111.62
OCTOBER	7,741.81	20,413.00	29,618.90
NOVEMBER	8,015.17	21,397.36	29,306.54
DECEMBER	(13)	22,203.95	

(13) The CSE was closed during December 2002 because of the general strike.

SOURCE: Caracas Stock Exchange and Metroeconomica.

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 INTERNET RESOURCES  
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¶17. INTERNET RESOURCES:

AMEMBASSY CARACAS WEBSITE: [www.embajadausa.org.ve](http://www.embajadausa.org.ve)  
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 EXCHANGE RATES AND INTERNATIONAL RESERVES: [www.bcv.org.ve](http://www.bcv.org.ve)  
 -  
 STOCK EXCHANGE: [www.caracasstock.com](http://www.caracasstock.com)  
 -  
 TRADE AND LABOR FORCE STATISTICS: [www.ine.gov.ve](http://www.ine.gov.ve)  
 -  
 BUSINESS INFORMATION: [www.venamcham.org](http://www.venamcham.org)  
 -  
 INVESTMENT OPPORTUNITIES: [www.conapri.org](http://www.conapri.org)  
 -  
 PETROLEUM INFORMATION: [www.pdvsa.com](http://www.pdvsa.com),  
[www.mem.gov.ve](http://www.mem.gov.ve)  
 -  
 PUBLIC FINANCE INFORMATION: [www.mf.gov.ve](http://www.mf.gov.ve)  
 -  
 FINANCIAL INDICATORS: [www.sudeban.gov.ve](http://www.sudeban.gov.ve)  
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 ECONOMIC PUBLICATIONS: [www.metroeconomica.com.ve](http://www.metroeconomica.com.ve),  
[www.veneconomy.com](http://www.veneconomy.com), [www.bancomercantil.com](http://www.bancomercantil.com),  
[www.provincial.com](http://www.provincial.com)  
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 NEWSPAPERS: [www.eluniversal.com](http://www.eluniversal.com),  
[www.el-nacional.com](http://www.el-nacional.com)  
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 LEGAL PUBLICATIONS: [www.datalegis.com.ve](http://www.datalegis.com.ve),  
[www.bpmaw.com](http://www.bpmaw.com), [www.traviesoevans.com](http://www.traviesoevans.com),

www.tpa.com.ve

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VENEZUELAN GOVERNMENT: www.venezuela.gov.ve,  
www.platino.gov.ve

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